

# FDIC State Profile

Fall 2005

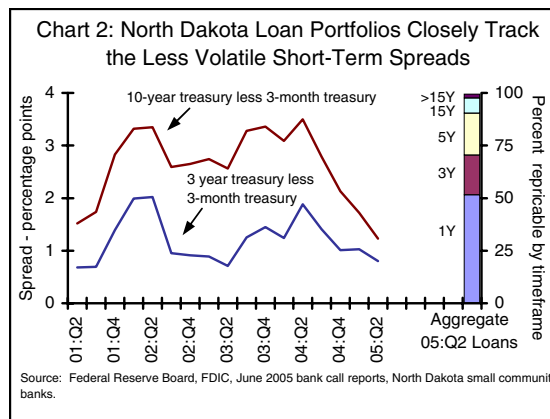
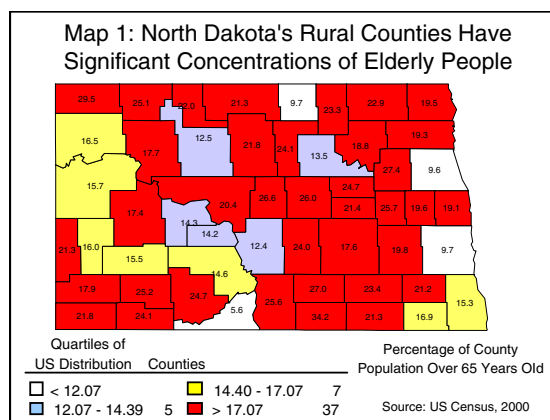
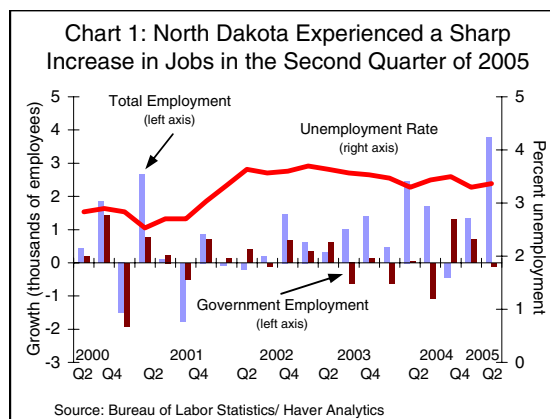
## North Dakota

North Dakota's economic expansion accelerated in the second quarter of 2005; expected downsizing of Grand Forks Air Force Base has been partially postponed.

- North Dakota's economy increased by more than 3,800 jobs in the second quarter, the largest quarterly increase in more than 15 years, to reach a record level of employment (see Chart 1). However, year-over-year employment growth was slightly less than the national rate.
- North Dakota's government sector, which accounts for more than 22 percent of the state's jobs, faces significant downsizing of the Grand Forks Air Force Base (GF AFB) due to Defense Base Realignment and Closure Commission (BRAC) proposal. The base, which employs more than 3,900 people, is the second largest employer in **Grand Forks** and the third largest employer in the state. On August 26, the 2005 BRAC voted to phase the aircraft reductions through 2012, leaving open the possibility of a new mission for the base before then.
- The recent hurricanes' effects on the North Dakota economy appear to be modest and are centered on energy. Like other states in the region, energy prices have risen sharply, but supplies have remained adequate. Farmers face substantially higher fuel costs during the harvest season.

North Dakota's rural counties have relatively large concentrations of elderly people.

- Based on 2000 Census, 37 of North Dakota's 53 counties rank in the top quarter of the nation's counties in terms of population older than 65 years. All of these counties are rural (see Map 1).
- Large concentrations of the elderly tend to be associated with rural depopulation, as all 37 of the older counties lost population between 1970 and 2000. These counties typically experience the out-migration of younger people seeking educational or employment opportunities.
- The Census Bureau projects that by 2030, 25.1 percent of North Dakota's population will be older than 65, ranking the state sixth in the nation.



## Aging populations pose challenges to financial institution funding.

- Insured institutions operating in rural areas face funding challenges, especially in areas with large elderly populations. Commonly, when elderly depositors pass away, their deposits quickly move to their heirs' institutions, often located in far-away metropolitan areas.
- Partly resulting from the aging population in North Dakota's rural areas, the state's rural core deposit base has grown just 39.0 percent over the past decade, compared with 52.0 percent for the nation.
- As North Dakota's rural areas continue to grow older over the next few decades, funding may become increasingly difficult to maintain.

## Bank earnings remain solid as rising short-term rates have offset moderate declines in term yield spreads.

- Earnings performance remains positive for most North Dakota institutions. The median return-on-assets ratio was 1.27 percent at June 2005, moderately higher than one year ago.
- The declining spread between three-month and ten-year interest rates has many national banking analysts fretting about potential net interest margin (NIM) compression. However, North Dakota's small community banks do not have the long-term loan exposure that would make them highly responsive to changes in long-term rates.<sup>1</sup> Nearly two-thirds of community bank loans reprice within three years; therefore, margins tend to track more closely the much less volatile three-month to three-year treasury spreads (see Chart 2).
- Given the typical asset-sensitive nature of small community banks, rising short-term rates often benefit small bank margins, even when the yield curve flattens. In fact, the June 2005 median NIM in North Dakota's small community banks was 8 basis points higher than a year earlier.

## Asset quality continues to improve at North Dakota insured institutions, and loan growth is strong.

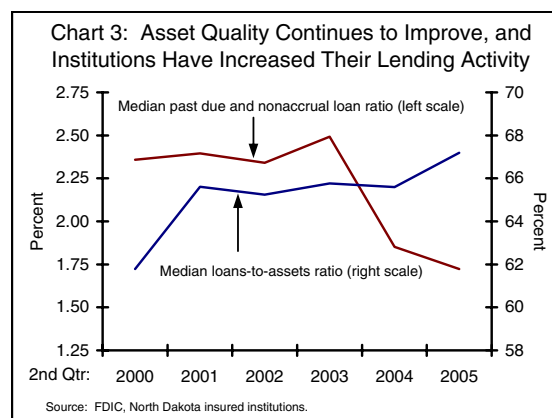
- Delinquent loans at North Dakota's insured institutions have declined for two straight years, and represented 1.72 percent of total loans in June 2005 (see Chart 3).
- Although the state has seen a recent spike in consumer bankruptcies as a result of pending bankruptcy reform enactment, the typical North Dakota institution has low

consumer loan exposure, and consumer loan charge-offs historically have been negligible.

- Spurred by business investment, insured institutions are experiencing strong loan growth. Commercial real estate lending was most pronounced growing a median 12.1 percent from a year earlier. Commercial business lending growth was also strong at 5.9 percent.

## Prices of North Dakota's most important agricultural commodities are forecasted to decline.

- The multi-year drought that has affected North Dakota has receded from most of the state.
- The United States Department of Agriculture (USDA) forecasts a typical wheat crop for North Dakota in 2005, but greater supplies domestically and worldwide will result in lower wheat prices in the upcoming marketing year (see Table 1).
- Cattle prices will decline because of excess supply brought by a larger calf crop and the opening of the Canadian border to imports of young cattle. Most foreign export markets remain closed to U.S. beef because of safety concerns with BSE.



**Table 1: Most Commodity Prices Are Expected to Decline in 2006**

	2003	2004	Est. 2005	Forecast 2006	% of Ag Cash Receipts
Corn	2.32	2.42	2.07	2.00	6.6
Soybeans	5.53	7.34	5.80	6.00	13.1
Wheat	3.56	3.40	3.40	3.10	26.3
Cattle	84.69	84.75	85.50	79.00	18.1
Hogs	39.45	52.51	48.50	45.00	1.0
Milk	12.52	16.05	15.05	13.35	2.1

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.  
Source: USDA World Agricultural Supply and Demand Estimates, August 12, 2005  
USDA/Economic Research Service 2004

<sup>1</sup>Small community banks are defined as FDIC-insured commercial banks with less than \$250 million in total assets that have been in existence at least three years. At June 30, 2005, these institutions represented 87 percent of all insured institutions in Iowa.

## North Dakota at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	2.0%	1.6%	1.4%	0.9%
Manufacturing (7%)	3.1%	5.0%	4.4%	4.2%	-0.6%
Other (non-manufacturing) Goods-Producing (6%)	3.2%	4.6%	11.0%	7.3%	5.4%
Private Service-Producing (64%)	1.5%	1.8%	1.5%	1.3%	0.5%
Government (22%)	0.7%	1.1%	-1.4%	-1.0%	1.4%
Unemployment Rate (% of labor force)	3.4	3.3	3.3	3.4	3.6

<b>Other Indicators</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	7.5%	7.0%	2.4%	2.0%	8.5%
Single-Family Home Permits	-25.6%	-20.8%	23.2%	6.9%	26.4%
Multifamily Building Permits	-19.2%	250.0%	35.7%	9.6%	-9.4%
Existing Home Sales	7.5%	16.2%	23.6%	12.4%	4.9%
Home Price Index	9.0%	8.9%	7.0%	7.9%	5.3%
Bankruptcy Filings per 1000 people (quarterly annualized level)	4.53	4.11	3.88	3.60	3.46

**BANKING TRENDS**

<b>General Information</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	100	102	103	103	104
Total Assets (in millions)	16,181	15,765	19,832	15,413	20,762
New Institutions (# < 3 years)	1	1	0	1	0
Subchapter S Institutions	58	57	53	53	49

<b>Asset Quality</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.72	2.23	1.85	1.52	1.75
ALLL/Total Loans (median %)	1.45	1.61	1.49	1.56	1.61
ALLL/Noncurrent Loans (median multiple)	1.99	2.28	1.84	2.69	2.17
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.03	0.07	0.12

<b>Capital / Earnings</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.43	9.34	9.47	9.60	9.16
Return on Assets (median %)	1.33	1.24	1.23	1.13	1.13
Pretax Return on Assets (median %)	1.66	1.54	1.55	1.48	1.47
Net Interest Margin (median %)	4.27	4.10	4.13	4.15	4.17
Yield on Earning Assets (median %)	6.07	5.73	5.56	5.66	5.94
Cost of Funding Earning Assets (median %)	1.74	1.59	1.41	1.49	1.72
Provisions to Avg. Assets (median %)	0.08	0.05	0.07	0.08	0.13
Noninterest Income to Avg. Assets (median %)	0.45	0.45	0.50	0.50	0.53
Overhead to Avg. Assets (median %)	2.74	2.68	2.71	2.86	2.87

<b>Liquidity / Sensitivity</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	67.2	64.5	65.6	65.6	62.8
Noncore Funding to Assets (median %)	15.3	12.8	15.3	13.6	12.0
Long-term Assets to Assets (median %, call filers)	12.1	12.5	14.7	12.1	13.7
Brokered Deposits (number of institutions)	25	22	20	24	20
Brokered Deposits to Assets (median % for those above)	5.3	3.8	2.3	4.1	1.8

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	103.3	101.0	101.1	95.3	95.3
Commercial Real Estate	64.7	60.3	60.3	60.6	55.8
<i>Construction &amp; Development</i>	4.7	3.4	3.0	5.1	3.5
<i>Multifamily Residential Real Estate</i>	0.5	0.4	0.7	0.4	0.7
<i>Nonresidential Real Estate</i>	51.0	51.6	54.2	50.4	45.6
Residential Real Estate	42.1	42.8	43.6	44.6	41.8
Consumer	49.3	49.2	56.7	51.3	57.3
Agriculture	325.4	280.2	316.5	310.8	305.3

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Fargo, ND-MN	25	3,059	< \$250 million	89 (89%)
Bismarck, ND	14	1,546	\$250 million to \$1 billion	8 (8%)
Grand Forks, ND-MN	18	1,289	\$1 billion to \$10 billion	3 (3%)
			> \$10 billion	0 (0%)